

Message Text

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PAGE 01 LONDON 19945 01 OF 02 101225Z

22-11

ACTION SS-14

INFO OCT-01 ISO-00 EB-03 EUR-08 SP-02 TRSE-00 SSO-00 NSC-05

NSCE-00 FRB-01 CIAE-00 ONY-00 /034 W

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O R 101217Z DEC 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8620

INFO AMEMBASSY BRUSSELS

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E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, DECEMBER 10

168; (B) LONDON 19864 #

1. THE STAGE IS NOW SET FOR THE ANNOUNCEMENT TF THE ECONOMIC PACKAGE THAT HAS BEEN OCCUPYING THE ATTENTION OF THE CABINET FOR ABOUT 3 WEEKS. THE CABINET CONCLUDED ITS EIGHTH AND FINAL MEETING ON THIS SUBJECT LAST NIGHT. DETAILS WILL BE PRESENTED TO THE COMMONS TN DECEMBER 15 BY THE CHANCELLOR OF THE EXCHEQUER.

MEA WHILE PRESS SPECULATION CONTINUES OVER POSSIBLE ELEMENTS OF THE PACKAGE. SEVERAL PAPERS REPORT THAT THE SALE OF 500 MILLION POUNDS OF H.H. GOVERNMENT HELD BRITISH PETROLEUM STOCK (ABOUT A FIFTH OF THE GOVERNMENT'S STAKE IN BP) IS LIKELY TO GO FORWARD, DESPITE THE OPPOSITION OF MANY LABOR MPS (SOME 75 HAVE ALREADY SIGNED A COMMONS MOTION DEPLORING ANY SUCH MOVE). TPPOSITION TO THE SALE MAY HAVE BEEN OVERCOME BY H.M. GOVERNMENT'S APPARENT INTENTION TO INCREASE ITS HOLDINGS OF BP FROM 48 TO 51 PERCENT, ASSURANCES THAT BURMAH OIL'S LEGAL CHALLENGE TO PREVENT H.H. GOVERNMENT FROM

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PAGE 02 LONDON 19945 01 OF 02 101225Z

SELLING THE 20 PERCENT OF BP, SHARES ACQUIRED FROM

BURMAH WILL FAIL, AND THE PREFERENCE AMONG THE CABINET
TO SUBSTITUTE PROCEEDS FROM THE BP SALE FOR DEEPER
SPENDING CUTS.

ON THE IMF FRONT, BOTH THE TIMES AND GUARDIAN RE-
PORT THAT THE GROUP OF TEN WILL MEET IN PARIS PROBABLY
DECEMBER 22 TO MAKE THE 3.9 BILLION DOLLARS REQUESTED
BY THE UK AVAILABLE TO THE IMF TO LEND. SINCE THE IMF
IS CURRENTLY SHORT OF HARD CURRENCY, THE MONEY IS TO
BE SUPPLIED UNDER THE GENERAL AGREEMENT TO BORROW, WITH
THE GUARDIAN REPORTING THAT THE U.S. WILL SUPPLY 1.2
BILLION DOLLARS, WEST GERMANY, 1.0 BILLION, JAPAN,
0.725 BILLION, WITH FRANCE, NETHERLANDS, BELGIUM AND
SWEDEN ALSO CONTRIBUTING.

2. SIR DEREK EZRA, CHAIRMAN, NATIONAL COAL BOARD,
CALLED ON THE NATIONAL UNION OF MINERS YESTERDAY (DEC 9)
TO RETURN TO THE NEGOTIATING TABLE TO DISCUSS THEIR
CLAIM FOR EARLY RETIREMENT. EZRA'S APPEAL CAME AS THE
MINERS WERE COMPLETING THEIR PIT HEAD BALLOTING ON
WHETHER TO GIVE THE NUM EXECUTIVE AUTHORITY TO TAKE
INDUSTRIAL ACTION, INCLUDING A STRIKE IF NECESSARY, IN
SUPPORT OF THE UNION'S CLAIM. THE MINERS VOTE, TO BE
ANNOUNCED TOWARDS THE MIDDLE OF NEXT WEEK, IS EXPECTED
TO BE SUBSTANTIALLY IN FAVOR OF SUCH AUTHORIZATION.
SIR DEREK'S CALL ON THE MINERS TO REOPEN DISCUSSIONS
SEEMS TO INDICATE THAT THE NCB IS PREPARED TO IMPROVE
ITS OFFER ON EARLY RETIREMENT. CHRISTIAN TYLER, A

NOTE BY OC/T: # REFERENCES AS RECEIVED.

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PAGE 01 LONDON 19945 02 OF 02 101225Z

44

ACTION SS-14

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LABOR WRITER FOR THE "FINANCIAL TIMES" (DECEMBER 10) BELIEVES THAT AN OVERWHELMING VOTE IN THE NEIGHBORHOOD PERHAPS OF 70 PERCENT COULD STRENGTHEN THE HAND OF EXTREME LEFT-WINGERS ON THE NUM EXECUTIVE TO HOLD OUT FOR MOST OF THE MINERS' CLAIM - AND IN THE PROCESS HELP DESTROY THE SOCIAL CONTRACT BETWEEN THE TUC AND THE GOVERNMENT WHICH THEY HAVE ALWAYS OPPOSED. WE STILL BELIEVE, HOWEVER, THAT A NEGOTIATED COMPROMISE IS POSSIBLE.

3. CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR): FIGURES FOR NOVEMBER SHOW THAT THE CGBR CONTINUES TO FALL BELOW ORIGINAL ESTIMATES. THE SHORT-FALL IS CAUSED BY REVENUES RUNNING 2 PERCENT ABOVE ORIGINAL ESTIMATES, EXPENDITURES 2 PERCENT BELOW AND HIGHER LEVELS OF BORROWING ABROAD (NOT INCLUDED IN THE CGBR) BY NATIONALIZED INDUSTRIES AND LOCAL AUTHORITIES. NEVERTHELESS, THE PUBLIC SECTOR BORROWING REQUIREMENT IS STILL LIKELY TO BE ABOUT 11 BILLION POUNDS FOR FY 76, WHILE THE CGBR MAY BE OF THE ORDER OF 7.0 BILLION.

4. FOREIGN EXCHANGE AND FINANCE: THE GILT MARKET WAS VERY QUIET THURSDAY IN ANTICIPATION OF NEXT WEEK'S ECONOMIC PACKAGE.

THE FT INDEX OF 30 INDUSTRIALS FELL 5.6 TO 319.4 ON
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PAGE 02 LONDON 19945 02 OF 02 101225Z

THE POSSIBILITY OF A LARGE MAJORITY AMONG THE MINERS IN FAVOR OF INDUSTRIAL ACTION IF THEIR DEMANDS ON EARLY RETIREMENT ARE NOT MET.

STERLING DECLINED SLIGHTLY THURSDAY TO \$1.6710 FROM THE PREVIOUS DAY'S CLOSE OF \$1.6715. THO TRADE-WEIGHTED DEPRECIATION WAS UNCHANGED AT 44.7 PERCENT. THE POUND OPENED TODAY AT \$1.6700.

ARMSTRONG

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